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~~SECRET~~ CIA HISTORICAL REVIEW PROGRAM COMMUNIST-LDC OIL ACTIVITIES, JANUARY-MARCH 1974 RELEASE IN FULL 1998

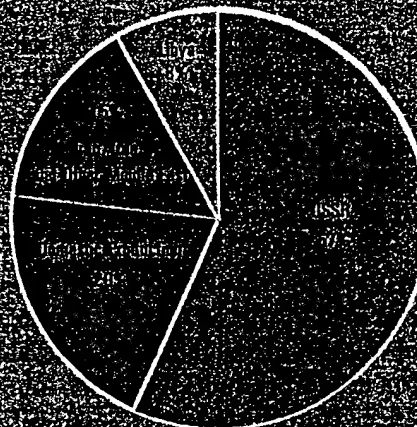
The USSR and Eastern Europe continued during the first quarter of 1974 to seek increased deliveries of oil from Middle East suppliers. Although Eastern Europe still will rely on the USSR for 60% of its crude supply in 1974, an estimated one-fourth is scheduled to come from Iran and the Arab producers. Planned purchases from these nations may be scaled down, however, because of recent price hikes and increasing LDC demands for cash payment rather than barter terms. Nevertheless, Communist countries continued to expand their already substantial assistance for developing national oil companies in LDCs.

Communist Aid to LDC Oil Industries

Moscow and its East European allies have provided more than \$1.4 billion of aid to 27 LDCs for the development of their national oil industries. Since 1969, this aid increasingly has stipulated repayment in oil as the USSR and Eastern Europe actively entered the Arab markets in search of crude supplies. In addition to aid arrangements, Communist countries provide petroleum equipment and technical services under commercial contracts.

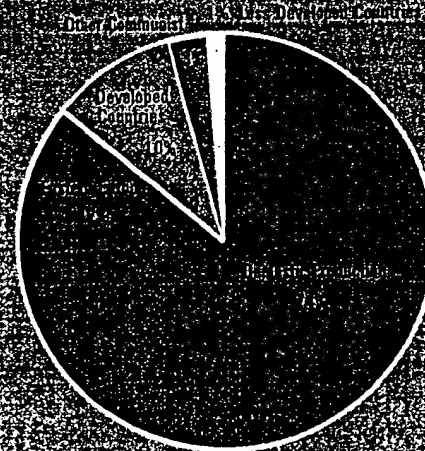
The most recent effort to break into LDC petroleum development has been observed in Latin America. So far this year, Romania has extended the only new Communist aid for such development—\$37 million for machinery and equipment to Argentina's oil industry. Both Moscow

Sources of East European Crude Oil Supplies, 1974



1.5 Million b/d

Distribution of Soviet Crude Oil Production, 1973



1.5 Million b/d

Note: Percentage shares are estimated.

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and Warsaw also have offered petroleum equipment to Buenos Aires. Earlier, Bucharest and Quito jointly announced plans for Romanian technical services to Ecuador's petroleum sector, probably on a commercial basis. Romania also announced an accord to cooperate with Liberia in oil development. Romania and Hungary signed agreements with Libya to swap petroleum equipment and technical services for crude oil.

New projects in countries already receiving petroleum aid also were discussed early in 1974. These undertakings eventually may involve new credits. In February, Moscow was negotiating a contract with Baghdad to accelerate Soviet assistance for developing the third and final stage of the oilfields at North Rumaylah, which will raise capacity from the current 360,000 b/d to nearly 1 million b/d by the end of 1975. A protocol signed with Damascus in March calls for an expanded Soviet oil development effort in Syria. Under a protocol signed in January with India, Moscow will intensify the supply of technical services and equipment for comprehensive oil and gas exploration, to be financed under existing agreements.

Although still less than 10% of total Soviet - East European aid undertakings in the LDCs, petroleum assistance in some countries has been a critical factor in establishing national oil industries. This was particularly true for crude production and refining capacity in India, where Communist assistance contributed 50% and 60%, respectively; for expanding Iran's natural gas industry, spearheaded by Soviet willingness to take Iranian gas (generally flared in the past); and for Syria where Soviet-developed oilfields and a Czech-built refinery account for all of Syria's production capacity.

Communist Oil Procurement Activities

Communist aid to national oil industries, which is repaid largely with crude oil and has helped to establish Communist links with oil producers, did not fulfill its promise during early 1974. Under agreements with Arab and North African states, Moscow received an estimated 240,000 b/d in 1973, mostly for East European account. For 1974 the supply picture is less certain. Moscow has hesitated to buy at the new higher prices, which in some cases call for cash instead of barter. Consequently, the USSR may have to provide a larger share of Eastern Europe's supply from its domestic production.

In January, Iraq stopped oil shipments to the USSR after Moscow refused to pay \$17 per barrel, the price Baghdad was demanding from Western customers. Earlier Soviet plans to obtain as much as 300,000 b/d of Iraqi oil during 1974 (more than double the estimated 1973 level) probably will be scaled down. Although Baghdad apparently has resumed shipments under previous agreements, it is unlikely that the two parties will agree to long-term deliveries at a fixed price.

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Communist Oil Purchase Agreements with LDCs, January-March 1974

Supplier and Recipient	Agreement		Price per Barrel (US \$)	Barrels per Day in 1974	Payment Terms
	Month Signed	Duration of Agreement			
Total				159,000	
Abu Dhabi Romania	Feb	1974	13.95	20,000	Spot purchase for cash. The oil possibly originated in Iraq and was purchased through an Abu Dhabi middleman
Algeria Poland	Feb	1974	14.00	6,000	Barter
Egypt Hungary	Mar	1974	10.83	1,000	N.A.
Iraq				28,000	
Bulgaria	Mar	1974	13.00	2,000	N.A.
Czechoslovakia	Mar	1974	13.50	1,000	N.A.
East Germany	Mar	1974	13.50	5,000	N.A.
	Mar	1974	10.86	10,000	N.A.
Hungary	Mar	1974	N.A.	10,000	N.A.
Libya				100,000	
Bulgaria	Jan	1974	16.00 ¹	10,000	Barter
Czechoslovakia	Feb	1974-78	16.00 ¹	N.A.	Barter for equipment and goods under 5-year trade agreement
Hungary	Jan	1974	16.00 ¹	10,000	Barter for equipment and services for oil development
Poland	Feb	1974-80	16.00 ¹	20,000	Barter for equipment and services for oil and other sectors
Romania	Feb	1974-77	16.00 ¹	60,000	Barter for oil refinery and technical services for Libya's oil sector, cement, housing and agricultural projects
Syria Bulgaria	Jan	1974	13.75	4,000	N.A.

1. Asking price during the first quarter of 1974. Prices and quantities of petroleum to be delivered under long-term agreements are to be negotiated periodically.

East European countries, often agreeing to pay the higher prices demanded for Middle East oil, bought at least 160,000 b/d during the first quarter. Estimated direct oil imports from LDCs by Eastern Europe for all of 1973 were 260,000 b/d. Libya may become an important East European supplier if agreement can be reached on prices. Recent preliminary agreements for a minimum 100,000 b/d would bring total Libyan direct oil exports to Eastern Europe up to at least 140,000 b/d in 1974, double last year's shipments and equivalent to about 8% of Eastern Europe's total oil

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supply. Tripoli was asking \$16 per barrel for this oil during the first quarter of 1974. Some other oil producers halted petroleum shipments to Eastern Europe because of price disputes. Iran canceled plans to deliver 6,000 b/d of crude to Poland during the first half of 1974, and Syria reneged on a 1973 contract with Hungary.

If the USSR provides a larger share of Eastern Europe's needs from its own supplies, it may be at the expense of Moscow's West European and LDC clients. The USSR already has notified several LDCs of harder terms for Soviet oil. In March, Moscow notified Ghana that its price per barrel for some 350,000 barrels of Soviet crude already delivered would be nearly \$15. It reportedly reduced its 1974 barter commitment to Morocco below the 20,000 b/d supplied in 1973. Moreover, Bangladesh will have to pay hard currency for Soviet petroleum products in 1974. Moscow was more responsive to Brazil's urgent need for fuel and reportedly agreed to supply it with 20,000 b/d of diesel fuel, valued at \$95 million, in 1974. The sale will help reverse the persistent large trade deficit that Moscow has run with Brazil. ~~(SECRET)~~

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